

**ANGUS COUNCIL**

**SCRUTINY AND AUDIT COMMITTEE – 16 JUNE 2020**

**AUDIT SCOTLAND REPORT: FRAUD AND IRREGULARITY UPDATE 2018/19**

**REPORT BY CATHIE WYLLIE, SERVICE LEADER INTERNAL AUDIT**

**ABSTRACT**

This report advises member of the Audit Scotland Report “Fraud and irregularity update 2018/19” and considers the internal control issues raised in relation to Angus Council. The committee previously noted the publication of this report at the August 2019 meeting. (Report 262/19 refers)

**1. RECOMMENDATIONS**

It is recommended that the Committee:

- (i) Consider the council's position in relation to internal controls to mitigate against the reported incidents and
- (ii) make recommendations about future internal audit or scrutiny work if required.

**2. ALIGNMENT TO THE ANGUS LOCAL OUTCOMES IMPROVEMENT PLAN/CORPORATE PLAN**

The work of the Scrutiny & Audit committee supports the achievement of the corporate priorities set out in the Angus Local Outcomes Improvement Plan and the Council Plan. This report supports the committee's scrutiny role.

**3. BACKGROUND**

Audit Scotland published “Fraud and irregularity update 2018/19” in July 2019. Copies are available from the [Audit Scotland website](#) or from the elected members section of the council's intranet.

**4. FRAUD AND IRREGULARITY UPDATE 2018/19**

Audit Scotland recommends:

- Public bodies should consider whether the weaknesses in internal control that facilitated the cases identified in this report may also exist in their own organisations and take the required corrective action.
- Auditors should confirm whether internal controls at their audit clients are sufficiently strong to prevent the types of frauds and errors highlighted in this report

The Audit Scotland report provides information on a number of fraud cases, including the internal control weaknesses that contributed to the fraud occurring. These are summarised in columns 1 and 2 of the following table. A high-level overview of the Council's position in relation to these internal control areas are summarised in the third column of the following table. Given the number of services that use vehicles we have not identified what happens in each of these and this will be followed up separately in future. Additional information on current controls is awaited from one service, delayed due to Covid-19 response work. This will be reported to a future meeting.

Common themes in these fraud cases included people not following procedures, poor segregation of duties, reconciliations not being done, independent checking of changes to bank details not being made, and poor budget monitoring.

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>School Fundraising.</b> Over £6,000 of cash collected at a school fundraising event was misappropriated by a third party involved with the event</p>	<p>A failure to timeously follow up non-receipt of funds</p>	<p><b>Counter fraud</b> A recent allegation of misappropriation from a Parent Teacher Fund was investigated by the Counter Fraud Team. The investigation found that no tangible means existed to verify that monies had been misappropriated. Recommendations to strengthen controls were put to the Parent Teacher Fund Committee via the Head Teacher.</p> <p><b>Our procedures</b> Guidance on running school funds is in place.</p> <p><b>Internal audit work</b> School Fund audits and follow-up reviews have taken place over the last three years and an action plan is currently being implemented.</p>
<p><b>Admission Ticket Sales</b> Perpetrators defrauded £12,000 from an non-departmental public body through fraudulent ticket sales</p>	<p>A card payment system which did not include secondary authentication for payments</p>	<p>The Council does not issue admission tickets.</p>

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Fraudulent refunds</b> An employee in a council's environmental services department defrauded £12,500 from the council by failing to bank income and by processing false refunds</p>	<p>The absence of regular reviews to highlight unusual items as well as inadequate segregation of duties</p>	<p><b>Counter fraud</b> This type of fraud is usually detected by management / co-workers.</p> <p>There have been no recent reports of fraudulent refunds.</p> <p>The latest counter fraud investigation on un-banked income, but in another service, was conducted by the counter fraud team in 2018/19. An action plan is being progressed to address the weaknesses which permitted this fraud.</p> <p><b>Our procedures</b> Segregation of duties between request and authorisation is built into the systems for Council tax and NDR, sales ledger and faster payments. Refunds through paye.net can be processed by one person, but access is restricted by services and guidance is that they should have a review process in place to scrutinise the payments made.</p> <p><b>Internal audit work</b> Internal Audit has a rolling programme of user access reviews in key systems to ensure access to system is actively managed and kept appropriate. There are currently action plans in place re Integra and Resourcelink systems. The Housing system was included for user access review in the 2019/20 internal audit plan. Findings and recommendations have been agreed and an action plan is currently being developed. A post implementation review of the new budget module use was included in the 2019/20 internal audit plan and provided comprehensive assurance. Review of income management was included in the 2019/20 internal audit plan but has now been moved to 2020/21. We will include these issues in testing.</p>

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Failure to bank income</b> A housing officer defrauded £6,000 from a council by failing to bank income</p>	<p>A failure in budget monitoring processes and the income reconciliation process relying upon income details being recorded in the income records</p>	<p><b>Counter fraud</b> This type of fraud is usually detected by management / co-workers.</p> <p>See comments in preceding item re the latest counter fraud investigation of a similar nature to this, but in another service.</p> <p><b>Our procedures</b> The systems for refunding both rent and council tax overpayments have appropriate segregation of duties with at least a two-step approval process. The process for reallocating a rent account credit balance only requires one person.</p> <p><b>Internal audit work</b> Budgetary control last reviewed 2016/17 at corporate level. Review of new budget module undertaken during 2019/20 Cash income reviewed as part of the 2019/20 internal audit plan and concluded substantial assurance was provided.</p>
<p><b>Working while claiming to be unfit for work</b> An occupational therapist defrauded £8,000 from a council by falsely claiming to be unfit for work.</p>	<p>The employee withheld the fact that they were carrying out outside work and falsely exaggerated the symptoms of their illness at sickness absence reviews</p>	<p><b>Counter fraud</b> This type of fraud is usually detected by whistleblowing. The fraud team undertake this type of review infrequently. The latest investigation of a similar nature to this was conducted during spring 2019. Recommendations to strengthen the Council's policy about other work, and to make information about this more accessible for staff are currently under consideration.</p> <p><b>Our procedures</b> The council has arrangements in place for staff to declare other work. There is an absence management policy in place, which is currently under review.</p> <p><b>Internal audit work</b> There is no internal audit work planned.</p>

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Diversion of salary payments</b></p> <p>A college received a fraudulent request to change employee details for two employees from hacked email accounts. This led to a loss of £2,000</p>	<p>Payroll did not seek a confirmation from the staff, either in person or on the phone prior to making a change to bank account details</p>	<p><b>Counter Fraud</b></p> <p>There have been no recent reports of payroll fraud.</p> <p><b>Our procedures</b></p> <p>Bank details are updated by employees through their own secure on-line access to Resourcelink. Employees who don't have this access currently have to complete a bank mandate form to make this change. By the end of the tax year everyone will be able to access their payslips online and therefore will have the responsibility for updating personal details, including bank information, themselves. This will prevent this type of fraud occurring in this way.</p> <p><b>Internal Audit</b></p> <p>Continuous audit work to check payments to duplicate bank accounts might pick this up depending on the bank account used</p>

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Theft of school laptops</b></p> <p>An unknown third party allegedly stole laptops valued at £7,000 from a school</p>	<p>Physical control weaknesses included:</p> <ul style="list-style-type: none"> <li>• Key boxes not being locked</li> <li>• Annual asset returns not being completed</li> <li>• Computer equipment not being securely marked</li> </ul>	<p><b>Counter fraud</b></p> <p>There have been no recent reports of theft of IT equipment from a school. *Thefts are investigated by the counter fraud team and reported to Police Scotland</p> <p>Recent cash thefts / losses have seen recommendations made around key security, petty cash levels and reconciliation frequency.</p> <p><b>Our procedures</b></p> <p>IT put an asset number on all hardware issued by them and can track hardware attached to the network. Off network tracking is recognised as an issue and developments to counter this are kept under review by IT. Schools are supplied with labels for their hardware, but this may not be secure as it relies on schools applying the labels and they can be relatively easily removed. The Schools Managed Hardware Board recently considered alternatives to address this risk but did not agree any change to the procedures.</p> <p><b>Internal audit work</b></p> <p>Inventory guidance is in the process of being revised in response to a recent stock audit.</p> <p>IT keep central hardware records. This was planned to be tested as part of the 2019/20 internal audit review of Stock and Inventories but has been re-scheduled to 2020/21.</p>

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Theft of prescription drugs</b></p> <p>An employee stole prescription drugs from a locked medicine cabinet in a council-run care home and replaced them with paracetamol</p>	<p>The keys to the cabinet were used by a number of staff on a shift</p>	<p><b>Counter fraud</b></p> <p>There have been no recent reports of theft of prescription drugs. For other theft see above*</p> <p><b>Inspection</b></p> <p>This is routinely covered in Care Inspectorate inspections.</p> <p><b>Our procedures</b></p> <p>Angus Council Child Care Establishments have a Medication Policy (last reviewed March 2018) and operational instructions, underpinned by guidance, risk assessments and training. Two staff are required to administer controlled drugs from a locked container. The balance of drugs remaining must be recorded and signed for by both each time the drug is administered. Other prescription drugs are kept in a locked cabinet, with an identified member of staff holding the key.</p> <p><b>Internal audit</b></p> <p>There is no relevant internal audit work planned in this area</p>
<p><b>Misuse of vehicles</b></p> <p>Up to £500,000 was lost to a public body when employees used the body's assets for their own personal gain</p>	<p>Too much flexibility given to the drivers in scheduling their work and a lack of monitoring of the driver's activities and the vehicles movements</p>	<p><b>Counter fraud</b></p> <p>There have been no recent reports of misuse of council vehicles.</p> <p><b>Our procedures</b></p> <p>Following an increase in electric vehicles arrangements for their use has been publicised to staff.</p> <p>Given the number of services that use vehicles this will be followed up separately</p> <p><b>Internal audit</b></p> <p>This has not been specifically covered recently by audit. We will consider including a review of vehicle management in the 2021/22 internal audit plan.</p>

Fraud from Audit Scotland Report	Internal control weakness from Audit Scotland Report. The Fraud was facilitated by	Angus Council
<p><b>Tenancy fraud</b> A council tenant was sub-letting their home</p>	<p>None identified</p>	<p><b>Counter fraud</b> The 2019/20 corporate counter fraud review (Report 159/20) noted recovery of seven tenancies (2018/19 Report 194/19 four tenancies recovered). Tenancy fraud is normally reported by Housing staff or by members of the public. Investigations are jointly undertaken by Counter Fraud and Housing staff.</p> <p><b>Our procedures</b> Housing allocations are made under our Common Allocation Policy following good practice that meets the requirements of the Scottish Social Housing Charter</p> <p><b>Internal audit</b> There is currently no directly relevant work planned for internal audit.</p>

## 5. FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

**NOTE:** No background papers, as detailed by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.

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